



## Legislative Department Seattle City Council Memorandum

**Date:** April 8, 2013  
**To:** Housing, Human Services, Health and Culture (HSHHC) Committee  
**From:** Sara Belz, Council Central Staff; Miriam Roskin, Office of Housing (OH)  
**Subject:** **Multifamily Tax Exemption Program (MFTE) – Issue Identification**

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On Wednesday, April 10, the HSHHC Committee will again discuss the MFTE program. As part of that discussion, the Committee will be asked to provide direction to staff about the range of issues they would like to see included in a forthcoming decision agenda that will identify and analyze specific options for amending the MFTE program. What follows below is a first attempt by Central Staff and OH to list the key policy issues that could be taken up in such a decision agenda. If there are additional issues Committee members would like to include on the list, or listed issues that the Committee is not interested in taking up at this time, please let us know so Central Staff may structure the decision agenda accordingly.

### Issue 1: Program Goals

Included in the Seattle Municipal Code are nine established goals for the MFTE program (see below). The goals are fairly wide-ranging and not all MFTE projects are able to achieve all nine. Additionally, progress toward some of the goals (e.g. “stimulate new construction”) may be difficult to gauge over time. Thus, *the Committee may want to consider whether these goals are measurable, attainable, and/or continue to reflect the long-term objectives of the program.*

#### **MFTE Program Goals from SMC 5.73.010 [emphasis added]:**

1. To encourage **more Multifamily Housing** opportunities within the City;
2. To **stimulate new construction** and the **rehabilitation of existing** vacant and underutilized buildings for Multifamily Housing;
3. To increase the supply of Multifamily Housing opportunities within the City for **low and moderate income households**;
4. To increase the **supply of Multifamily Housing opportunities in Urban Centers that are behind in meeting their 20-year residential growth targets**, based on Department of Planning and Development (DPD) statistics;
5. To **promote community development, affordable housing, and neighborhood revitalization** in Residential Targeted Areas;
6. To **preserve and protect buildings, objects, sites, and neighborhoods** with historic, cultural, architectural, engineering or geographic significance located within the City;
7. To encourage the **creation of both rental and homeownership housing for Seattle's workers** who have difficulty finding affordable housing within the City;
8. To **encourage the creation of mixed-income housing** that is affordable to households with a range of incomes in Residential Targeted Areas; and
9. To encourage the development of **Multifamily Housing along major transit corridors**.

## Issue 2: Geographic Span

Questions about MFTE program goals are tightly integrated with questions about the program's geographic span. State law requires that the program be targeted to areas that the City Council determines lack "sufficient available, desirable, and convenient ... housing, including affordable housing." The MFTE program currently operates in 39 "residential targeted areas" (RTA). These areas are largely (though not perfectly) contiguous with the City's urban centers and villages. In addition to promoting the production of affordable units in higher-rent areas, the MFTE program is also used to encourage development in neighborhoods with cooler real estate markets. ***The Committee may want to consider whether the MFTE program should continue to advance both purposes and operate in all 39 RTAs.***

## Issue 3: Affordability Levels

Current MFTE affordability limits, including the maximum annual income that can be earned by tenants of affordable MFTE units and the maximum monthly rent that building owners may charge for such units, are summarized in the following table. The table also compares 2013 MFTE rent limits to 2012 Dupre & Scott-reported market rent averages for residential units located in newer multifamily buildings (i.e., the type of buildings that typically participate in the MFTE program).

<b><i>Estimated MFTE Rent Impacts, 2013</i></b>						
Unit Size	AMI	Maximum Annual Income	MFTE Maximum Monthly Rent*	Reference: Market**	Rent Savings to Tenant	Rent Foregone by Owner***
0BR	65%	\$39,455	\$886	\$1,249	\$363	29%
1BR	75%	\$52,050	\$1,201	\$1,574	\$373	24%
2BR	85%	\$66,385	\$1,519	\$1,848	\$329	18%

\*MFTE rents shown are for 2013. They are reduced to reflect a utility allowance of \$100 for a studio and 1BR and \$140 for a 2BR.

\*\*Market rents based on Sept 2012 Dupre & Scott average rents for multifamily rental buildings constructed since 2008 in eight indicator areas.

\*\*\*Represents the difference between revenue possible from MFTE-restricted rents vs average market rents.

Over the years, the Council has periodically amended the income limits that apply to renters of affordable residential units in MFTE projects. These limits have ranged from just 60% of area median income (AMI), regardless of unit size, back in 2004, to 90% of AMI for a 2BR in 2008. Current AMI thresholds became effective in early 2011. ***The Committee may want to consider reviewing the income thresholds that presently apply to affordable MFTE units in the context of the City's current rental housing market.*** Another, related issue that the Committee may want to discuss is whether a graduated set of income levels that varies by unit size should continue to be maintained or if the City should instead apply the same AMI percentage limit to all affordable residential units that are located in MFTE projects. In addition, the Committee could also consider adopting different affordability thresholds for different subsets of RTAs.

#### **Issue 4: Occupancy Assumption for One Bedroom Units**

The maximum monthly rent that may be charged for an affordable one bedroom unit in an MFTE project is \$1,201 (\*see table on previous page). This figure is derived, in part, from the assumption that such units are typically occupied by two-person households. However, in Seattle, the average occupancy of a one bedroom rental apartment is closer to 1.5. If the City were to maintain the 75% AMI limit for one bedroom affordable units in MFTE projects but lower the assumed household size to 1.5, the maximum rent that could be charged for such units would fall from \$1,201 to \$1,020, a difference of about \$180 per month. ***The Committee may want to consider amending the occupancy assumption for one bedroom units in MFTE projects as a means of establishing rent and income limits that are more in-line with the size of the households that are actually occupying those units.*** (Note: The MFTE affordability limits for studio and two bedroom units assume such units are occupied, on average, by one- and three-person households, respectively. These assumptions are fairly reflective of what is currently playing out in the City's rental market.)

#### **Issue 5: Percent of Units Affordable**

To qualify for a 12-year tax exemption under the MFTE program as established by State law, at least 20% of the housing units in a multifamily project must be classified as affordable. However, local governments have discretion to require a greater set-aside of affordable units. Depending on how other elements of Seattle's MFTE program are amended (program goals, geographic span, affordability levels, etc), ***the Committee may want to consider requiring more than 20% of the units in MFTE projects to be maintained as affordable.***

#### **Issue 6: Unit Size Preferences**

Over the past few years, developers of over 1,000 very small studio units averaging around 200 square feet (microhousing) have accessed the MFTE program. In addition, the average size of traditional studio apartments located in many MFTE projects appears to be on a decline. Due to their size, the market rents that can reasonably be charged for small studios units do not always exceed the maximum rent that can be charged for an affordable studio in an MFTE project. Thus, the owners of MFTE projects that include small studios may be able to retain most or the full value of their tax exemptions without having to reduce the monthly rents they charge for many of their units. Also, on a per-square-foot basis, the rents charged for small studio units are often higher than those charged for much larger apartments. As a result, ***Committee members may want to consider whether small studio units not exceeding a certain size limit should be distinguished from traditional studio apartments for the purposes of establishing MFTE program eligibility and/or affordability levels.***

At the other end of the spectrum, the MFTE program's tiered affordability levels (lower for a studio, higher for two bedroom units) presently provide developers with a modest incentive to include larger-sized units in their buildings. ***The Committee may want to consider whether the program should continue to provide higher income and rent thresholds for larger units. The Committee could also direct staff to analyze potential means of encouraging developers to include more family-size units in MFTE projects,*** such as establishing affordability thresholds for units that have three or more bedrooms. (Currently, the income and rent limits for two bedroom units are also applied to larger units when they are included in MFTE projects.)

### **Issue 7: Student Eligibility**

In its 2012 review of the MFTE program, the Office of the City Auditor questioned whether full-time students, who may be receiving significant financial support from their families, should be eligible to occupy income-restricted units in MFTE projects. In response, the City could, for example, choose to exclude full-time students who are claimed as dependents on another party's tax return. Under current language in the Seattle Municipal Code, the Office of Housing has no basis to prevent any type of tenant from occupying an affordable unit in an MFTE project, so establishing a restriction on student residents would require Council action via ordinance. Thus, *the Committee may want to consider directing staff to identify potential options for limiting full-time students' eligibility to occupy MFTE-restricted units.*

### **Issue 8: Income Requalification**

At present, the Seattle Municipal Code requires prospective tenants of affordable units in MFTE projects to income-qualify at the point of move-in. In its 2012 review of the MFTE program, the City Auditor raised the questions of whether 1) such tenants should be required to periodically re-qualify for their units, and 2) building owners should be obligated to designate alternate affordable units within their MFTE projects when tenants' incomes grow to exceed the maximum thresholds for the program. *The Committee may want to consider requiring tenants of income-restricted units in MFTE projects to periodically re-qualify for their units (perhaps every two years), or alternatively, obliging the Office of Housing to make building owners responsible for collecting the annual tax returns of income-qualified tenants* so that Council can start receiving regular information on the incidence of tenants' incomes substantially increasing after the point of move-in.

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### **Next Steps**

The Committee's next opportunity to discuss possible amendments to the MFTE program will likely be on April 24 or May 8. At that time, Central Staff will present a decision agenda on the issues described above as well as any other issues identified during the Committee's discussion on April 10. If you have any questions about the content of this memorandum or the MFTE program more generally, please feel free to contact either one of us at any time ([sara.belz@seattle.gov](mailto:sara.belz@seattle.gov) / 4.5382; [miriam.roskin@seattle.gov](mailto:miriam.roskin@seattle.gov) / 3.9077).